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PII: S0165-4101(17)30015-0
DOI: http://dx.doi.org/10.1016/j.jacceco.2017.02.002
Reference: JAE1137

To appear in: Journal of Accounting and Economics

Received date: 14 December 2014
Revised date: 8 February 2017
Accepted date: 9 February 2017

Cite this article as: Ying Dou, Leaving before bad times: Does the labor market penalize pre-emptive director resignations?, Journal of Accounting and Economics, http://dx.doi.org/10.1016/j.jacceco.2017.02.002

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Leaving before bad times: Does the labor market penalize pre-emptive director resignations?∗

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Abstract

When firms experience negative events such as lawsuits or earnings restatements, their directors also suffer. But what about those who leave shortly before the events? I show that directors who leave prior to negative events experience greater declines in the number of their directorships than directors who stay through the events, but smaller declines than directors who leave after the events. These declines do not appear to be voluntary or driven by forced departures. Instead, they appear to be the results of labor market penalties. The results suggest that resigning pre-emptively does not protect directors from labor market penalties.

JEL classification

G30; G34

Keywords

Director departures, Reputational concerns, Board seats, Labor market settling-up

1. Introduction

How effective is the director labor market? Prior studies suggest that, when firms experience negative events (e.g., class action lawsuits, and earnings restatements), their directors also suffer. Some directors are removed from the boards in the post-crisis period (e.g., Brochet and Srinivasan, 2014; Srinivasan, 2015); while some others experience a decline in their subsequent number of board seats (e.g., Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014). However, while there is ample evidence that the labor market penalizes directors who are

∗ I would like to thank Renée Adams, Ronald Masulis and Jason Zein for their valuable guidance on this paper. I have received helpful comments and suggestions from Ali Akyol (FIRN discussant), Lindsay Baran (FMA discussant), David Denis (FMA Doctoral Student Consortium Leader) Kevin Davis (Sirca discussant), Mark Humphery-Jenner, Jonathan Karpoff, Jing Ma (AFBC discussant), Gwenaël Roudaut, Sidharth Sahgal, Robert Tumarkin, Terry Walter, Jing Xu, Emma Zhang, and participants at a UNSW brown bag seminar, 3rd Sirca Young Research Workshop, 2013 Financial Research Network (FIRN) Annual Conference, the 26th Australasian Finance and Banking Conference (AFBC), 2014 Financial Management Association Annual Meeting and its Doctoral Student Consortium, and a seminar at the Monash Business School. I also thank Jonathan Karpoff, Allison Koester, Scott Lee, and Gerald Martin for providing the Federal Securities Regulation Database; and Michael Roberts and Amir Sufi for providing the data on debt covenant violations. This paper is the first chapter of my doctoral dissertation at the University of New South Wales. All errors are my own.
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